

Title 4: Auditor

Part 3: State Bond Monitoring

Part 3 Chapter 1: The Procedure Regulating the State Bond Monitoring Program

The following rules define the ten (10) general areas covering the guidelines for documentation, site visits, analysis, and reporting performed by the Office of the State Auditor (OSA) to fulfill its duties with regard to the State Bond Monitoring Program. In developing a plan of work for each monitored bond project, OSA selects relevant activities from each of the ten areas and adds any other requirements, which may be prudent or necessary to ensure and protect the public's interest.

See **Exhibit 1**: an illustrated flow chart, which summarizes the Ten Step Bond Management Process (**Exhibit 1** is located at page 17)

Rule 1.1 Project Application and Approval Process: Feasibility, Engineering Studies, Business Plans, Due Diligence Effort, etc. – Specific Project Criteria.

- (a) Document proper feasibility and engineering studies where applicable.
 - (1) Certify that a professional consultant performed the feasibility study and that the results of the feasibility study were conclusive to the effect that the project is viable.
 - (2) Certify that a professional and licensed engineer independent from the Company or Project owner performed the engineering study. Verify that the engineering study has been reviewed and approved as viable by a State contracted engineer before project is accepted.
- (b) Document due diligence efforts, where applicable.
- (c) Review any economic impact analyses related to project.
- (d) Review and Document, where applicable, business plans and other information relevant to project submitted to MDA by applicant.
- (e) Document that the project meets the specific criteria for the program under which it is listed.
 - (1) Economic Development Projects:
 - (i) Super Project Category: Total bonds issued over \$50,000,000.
 - (ii) Regular Project Category: Total bonds issued under \$50,000,000.
 - (2) MDA Multi-Project Programs: (Examples: Rural Impact, Small Municipalities Limited Populations Counties Fund, Land, Water and Timber, ACE, and all other economic development related programs)
 - (i) Grants - Document that the Project meets the requirements for receiving a grant under the program's requirement/regulations.
 - (ii) Loans - Document that the Project meets the requirements/regulations for receiving a loan under each program.
 - (iii) Loan Guarantees - Document that the Project meets the requirements/regulations for receiving a loan under each program.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.2 Issuance of Bonds (where applicable).

- (a) Review and Include in permanent file legislative record, memoranda of understanding (MOU), any side agreements, business plans, applications, and any other information provided to MDA by project applicant related to project where funding is sought.
- (b) Include in permanent file the resolution requesting bonds to be sold.
- (c) Document the development of the capital project.
- (d) Document that the necessary board approvals have been obtained.
- (e) Document that the Department of Finance and Administration (DFA) and/or State Treasurer's office properly monitors use of bond proceeds and arbitrage compliance.
- (f) Document that the State Bond Commission, where applicable, has reviewed applications, evaluated and analyzed how the project fits within the state's debt structure, evaluated issuance costs, approves issuance and that a final report indicating the use of the funds was received from the relevant agencies.
- (g) Document any bond insurance or credit enhancement activity related to the bond issuance.
- (h) Document that the State Bond Attorney, where applicable, has issued an opinion on the legal issuance of the bonds and that the Office of the Attorney General approved the bond issue before delivery.
- (i) Document that the State Treasurer or its designee registered the bonds and recorded the sale of the bonds.
- (j) Document the purchase of the bond issue by the underwriter/syndicate.
- (k) Other documentation as necessary.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.3 Management of Funds Disbursement by Economic Development Project Category.

(a) **Category A: Super Project – External Management, External Oversight:**

These projects generally have external management and external oversight of construction in addition to MDA staff.

(1) Submission and Approval of Invoices:

- (i) For a sample of invoices, document that the proper signatures are in place.
- (ii) Document, for a sample of invoices which require pre-approval that the appropriate signatures have been obtained from the project engineer/architect prior to being submitted for payment to MDA.
- (iii) Document the procedures which the Accounting Sr. Manager employs in the review of the invoices.
- (iv) Document that any discrepancies observed were resolved as described by the Project Engineer.
- (v) For a sample of invoices encompassing all accounts and expenditure classifications, ensure that each one paid bears the signature of the Project Director, the Executive Director and the Chief of Staff.

(2) Processing Payment of Invoices:

- (i) Document that the Mississippi Major Economic Impact Act (MMEIA) invoice is attached to the approved invoice.
- (ii) Document, on a sample basis, that the Accounting Auditor II's input follows guidelines set forth in the MS Agencies Accounting Policies and Procedures Manual and in MDA's internal accounting procedures manual.
- (iii) Document, on a sample basis, that the Accounting Auditor II sends invoices requiring Purchase Orders to the Purchasing department.
- (iv) Document that the payment vouchers are submitted with appropriate signatures and that the proper copies are submitted and filed in accordance with the procedure above.
- (v) Document, on a sample basis, that the proper dates and warrant numbers are properly filed in the Vendor Files by alphabetical order.
- (vi) Document the procedures performed and the results of the post audit review.
- (vii) Obtain current copy of the asset spreadsheet and review for completeness on a sample basis from invoices to the spreadsheet for the recording of capital assets.
- (viii) Obtain a copy of the spreadsheet maintained to track expenditures and to reconcile balances related to the project budget and test for clerical and formula accuracy.

(b) **Category B: Regular Project – Local Management, External Oversight:**

Company Expenditures and Process (Example: Mississippi Major Economic Impact Act (MMEIA) and Mississippi Business Investment Act (MBIA):

- (1) Document, from a sample of invoices and requests for payment (RFPs) that each was authorized for payment by the above mentioned individuals. Also verify that none of the RFPs are for reimbursement of expenditures by the county or the company.
- (2) Document, from a sample of RFPs that amounts requested are within budget guidelines for the expenditure type.
- (3) Document that the budget was created in collaboration from the various individuals mentioned above. On a sample basis, perform independent research to ensure that, where possible, itemized budget amounts appear reasonable.
- (4) Document that the Company has committed, in writing, to covering the cost of budget overruns, where applicable.
- (5) The RFP package is then delivered to the Executive Director's Office for signature.
- (6) Document that all paid RFPs bear the signature of the Executive Director or his/her proxy.
- (7) Document for a sample of RFPs that the appropriate copies are in the above referenced locations.
- (8) Document that the expenditures are tracked and that a running total of dollars expended for the project is available and accurate.
- (9) Document from a sample of RFPs that the proper dates sent and paid are recorded by MDA.
- (10) Document that a reconciliation of expenditures against the receipts is conducted monthly for a sample of months.
- (11) Document, for a sample of RFP packages, that the proper stamps are in place to demonstrate authorization.

- (12) Document, for a sample of RFP packages, that the check was received and mailed and that a copy of the check was attached to the check pending file.
- (13) Document that the check payment date and the payment voucher number are recorded in the PV Log and that a copy of the RFP and the check is filed in the disbursement file for the proper and relevant budget component.
- (14) For a sample of contracts, document that no contracts were entered into by the County with individual contractors except where provided by exception. From the selected sample, document that the state laws of procurement, advertising and awarding of contracts were followed sufficiently.

(c) **Category C: MDA Multi-Project Category:**

(1) **Example I:** Rural Impact Funds Request for Cash Process:

- (i) Document that the Request for Cash (RFC) is completed by the applicant and that it is signed by the appropriate official or designated person.
- (ii) Document the process by which the RFC is compared to the contract and on a sample basis, ensure that expenditures conform with the contract requirements.
- (iii) Document that all invoices, on a sample basis, bear the approval of the Bureau Manager and that the original and three copies of the RFC are sent to Accounting.
- (iv) Document that a sample of pending RFCs are located in the pending file.
- (v) For a sample of RFCs, document that the files are properly maintained for paid RFCs.

Recommendation. The utilization of invoices for all disbursements is recommended as the best practice for ensuring that payments are related to services rendered or goods provided. Such documentation provides a means of providing assurance as to the propriety of the expenditures.

(2) **Example II:** Land, Water, Timber Cash Disbursements Process:

Approval of fund disbursement is currently at the discretion of the Land, Water and Timber Board.

(3) **Example III:** All Other Multi-Project Categories:

All other “Multi-Project” programs (which are economic development related and which utilize State bond proceeds) will be reviewed and documentation tested and collected based on the defined procedures, regulations, and requirements defined by MDA. These programs include, but are not limited to Small Municipalities, Limited Population Counties Program, ACE Program, Mississippi Business Investment Act, etc.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.4 Construction Management.

- (a) As Provided in the Memoranda of Understanding: Project performance analysis of Construction Management will include elements defined and described in the MOU for each project, where available.

(b) Recommendations in Addition to the Presented Activities of the Memoranda of Understanding:

- (1) Maintain updated file containing all material engineering plans and related change orders.
- (2) Through services provided by contract engineers/architects or consultants, review the feasibility of any changes to the construction plan of the project and the estimates associated with those changes.
- (3) Periodically and randomly, perform site visits with contract engineers/architects or consultants to track construction and progress with plans and project timeline. Document findings from these reviews and observations.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.5 Completed Project Analysis.

(a) As provided in the Memoranda of Understanding: Final project analysis will include elements defined and described in the MOU for each project, where available.

(b) Recommendations in Addition to the Presented Activities of the Memoranda of Understanding:

- (1) Upon the original date of stated completion, visit project site in order to perform the following for:
 - (i) Tangible Project Components:
 - (A) Document that the project is constructively complete in accordance with the terms of the agreement, Memoranda of Understanding and the engineering specifications of the project.
 - (B) Document that the related infrastructure required to support the operations of the project is operational as defined by the terms of the agreement, if applicable.
 - (ii) Intangible Project Components:
 - (A) Document that the full amount of capital investment has been received as required by the completion date of the project from the project company.
 - (B) Document that the number of jobs created by the completion date of the project is equal to or greater than the amount agreed upon in the MOU related to the employment aspect of the project.
 - (C) Document that the project has the capacity and ability to produce the intended benefit within the timeframe specified by the MOU.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.6 Monitor Project Company Financial Viability (where applicable). Throughout the life of the project, it is essential to monitor the financial viability of the project company to ensure that the state will know either that the company will be able to fulfill its obligations to remain in business and thus maintain its level of employment in keeping with the MOU or that the company will eventually be forced to discontinue its operations. In order to provide assurance as to the financial viability of the project company the following should be performed, where applicable:

- (1) Review of investment and cash flow management and documentation of findings either by an external expert consultant or by a comparably qualified internal employee.
- (2) Review of the project company's annual and interim financial statements and documentation of findings either by an external expert consultant or by an comparably qualified internal employee, and
- (3) Performance ratio comparisons ("Performance to earning" or PE ratios) within the relevant company industry to be performed by a qualified valuation analyst or by a comparably qualified internal employee.

The results of these reviews should be documented within a report subsequent to the availability of company financial data, if available. If unavailable, at least an annual review of the company's books should be performed and comparisons within the industry made to provide reasonable assurance that the company remains a going concern.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.7 Condition Surveys. On at least an annual basis, a report outlining the general condition of the project should be issued outlining the operational, environmental and aesthetic aspects of the project's buildings, equipment and grounds. Such a report is useful in determining the proper expenditure of maintenance funds, where applicable. The report should also contain a synopsis of working conditions and any obvious health, safety or other issues that are present upon review of the premises.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.8 Debt Service Payment. With cooperation of DFA and/or the State Treasurer's office,

- (a) Document the payment of debt for outstanding bonds related to the project.
- (b) Document that payments are being made by the State in a timely fashion and that provisions for these payments are included in the budget for each fiscal year.
- (c) Conduct payment performance review.
- (d) Maintain a schedule of outstanding debt and expenses related to the bond issuance for the project to readily determine interest expense, issuance costs, and remaining balances for the purpose of economic cost benefit analysis.

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.9 Covenant, Contractual and Memoranda of Understanding Monitoring.

- (a) On an annual basis, review project specific covenants, contractual requirements, Memoranda of Understanding and any side agreements and document the findings of these within the project's annual report.
- (b) Perform a review of the reserve fund to ensure that the terms of the agreement are being upheld (where applicable).
- (c) Perform covenant monitoring to ensure that no covenants are being violated by either party to the agreements.
- (d) Perform insurance monitoring to insure the state is not exposed under the terms of the various project agreements (*where applicable*).

Source: *Miss. Code Ann.* § 7-7-211.

Rule 1.10 Bond Retirement.

- (a) With cooperation from the DFA, document the retirement of bonds process.
- (b) Document the amount paid in the bond retirement for economic cost/benefit analysis.
- (c) Should the bonds be retired before the indicated date, document the reason and any savings due to interest rate fluctuations, swaps or other methods.
- (d) If the bonds are retired on the due date, record the amount for which the bonds were retired and update the outstanding bonds worksheet records.
- (e) Develop a schedule demonstrating the total cash paid for the bond financing and the cost represented as a present value based on the Consumer Price Index (CPI) from the issuance date to the retirement.

Source: *Miss. Code Ann.* § 7-7-211.

